



UMDONI MUNICIPALITY
TOGETHER BUILDING UNITY - SIYAKHISANA - TESAME BOU ONS EENHEID

DRAFT MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK BUDGET

2014/2015 FINANCIAL YEAR

TABLED TO COUNCIL 26 MARCH 2014





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1. MAYORS REPORT

The 2014/2015 budget is presented in challenging times but against a background of a new strategic framework. This is a budget in which there is limited room for expansion, yet there are significant opportunities for change.

Umdoni is embarking on a new direction in the new financial year. New priorities have been identified and previous priorities have been further emphasised.

A substantial portion of the budget has been geared toward the rural and urban road network. The budget was essentially prepared around these main priorities. We have seen over the last few years the deterioration in the roads. In addition to the harsh and wet weather experienced on a regular basis, regular and planned maintenance was not adequately completed. This has further placed pressure on the road network. In light of this approximately 88% of the capital budget has been identified for the upgrade of both rural and urban roads.

R 250 000 of the capital budget has been set aside for the purchase of skips which will further assist in extending services to the rural areas.

The operational budget was prepared in light of the current economic climate as well historical performance of the municipality. Tariff increases were limited to below inflation rates at 5% whilst expenditures have increased in excess of 6%. Income was budgeted more realistically and reflects the municipality's ability to collect this revenue.

Expenditure was contained as far as possible. Service delivery items were given priority over funds whilst administrative expenditure was decreased. In an effort to cap the rising employee costs, a limited number of new posts were budgeted for whilst the rest were frozen.

A greater emphasis has been placed on the management of funds in order to ensure that they last the entire financial year and reduce the risk of unauthorised expenditure.

Umdoni municipality has refocused its priorities for the upcoming year. The budget presented shows our commitment to the community. The focal point of this budget will be on upgrading and maintaining the road network. Further, non priority expenditure has been curtailed in order to invest more funds towards service delivery.

It is hoped that this budget will enable us to move toward meeting our strategic objectives and serve our community to the best of our abilities.



2. DRAFT RESOLUTIONS

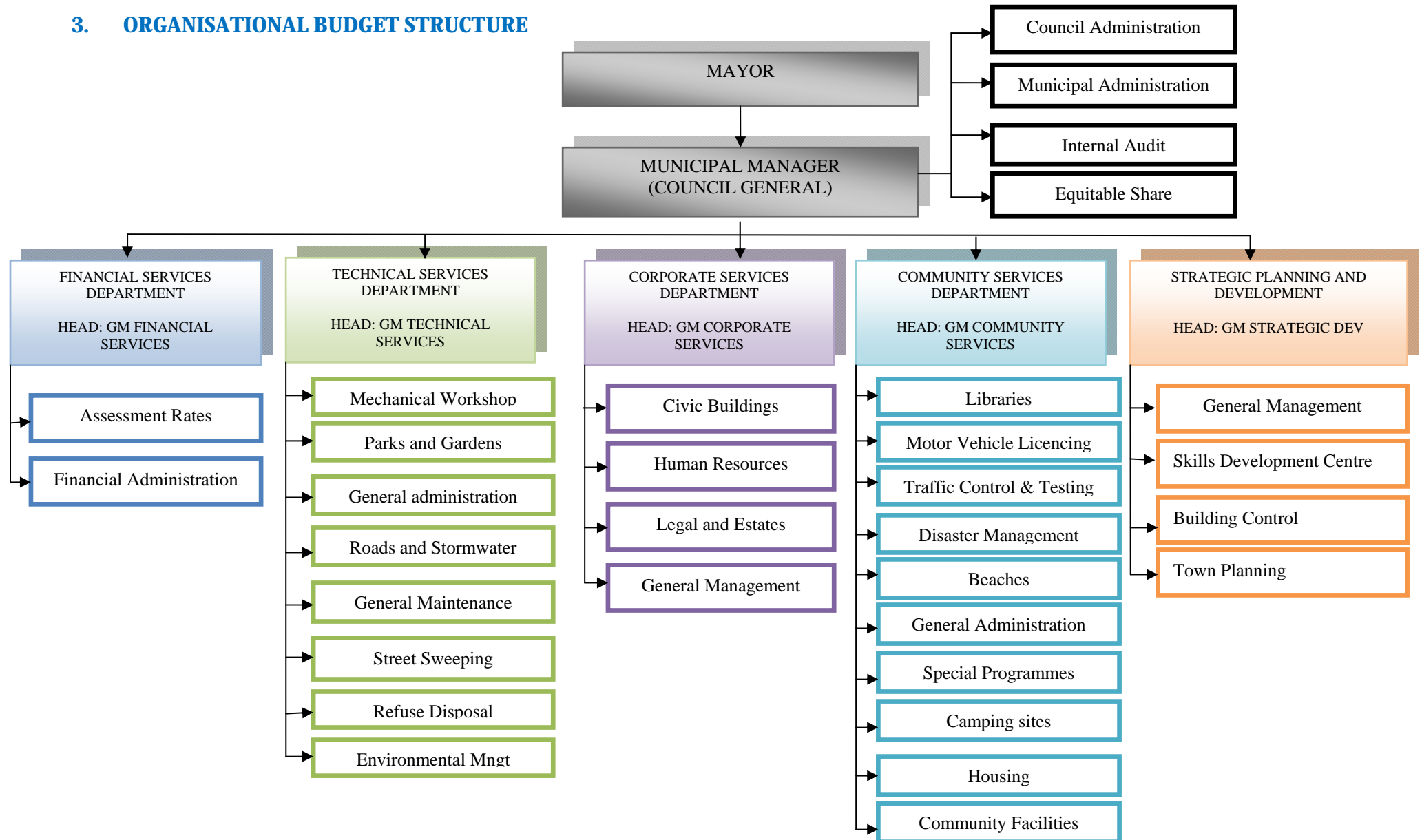
As required in terms of Section 16(2) of the Municipal Finance Management Act, No.56 of 2003, the mayor of the municipality must table a draft annual budget at a council meeting at least 90 days before the commencement of that budget year.

The Draft Budget for the 2014/2015 financial year is hereby tabled to Council for approval therefore initiating the commencement of the public participation process.

The following resolutions are tabled for consideration by Council with regard to the 2012/2013 Budget:

- 1.1 Council resolves that the draft annual capital and operating budgets of the municipality for the financial year 2014/2015 be tabled for initiation of the public participation process as set out in the following schedules:
 - a) Budgeted Financial Performance Summary by Revenue Source and Expenditure Category for all Departments as reflected in Annexure 1;
 - b) Budgeted Financial Performance - revenue and expenditure by department as reflected in Annexure 2;
 - c) Budgeted Financial Performance - revenue and expenditure by municipal vote as reflected in Annexure 3;
 - d) Budgeted Financial Performance - revenue and expenditure by line item as reflected in Annexure 4;
 - e) Budgeted Capital Expenditure by vote, GFS classification and funding as reflected in Annexure 5; and
 - f) Budgeted Capital Expenditure by line item as reflected in Annexure 6
 - g) Municipal budget and reporting regulations schedule A1
- 1.2 Council resolves that Draft Tariff of Charges reflected in Annexure 7 are tabled for public participation for the 2014/2015 financial year.
- 1.3 Council resolves that draft property rates randages and rebates calculated at a 5% increase, as reflected in the budget documents are tabled for public participation for the 2014/2015 financial year.
- 1.4 The draft operating and capital budgets, together with proposed randages and tariffs, be submitted to National and Provincial Treasury for comment.

3. ORGANISATIONAL BUDGET STRUCTURE





4. EXECUTIVE SUMMARY OF THE 2014/2015 BUDGET

4.1 VISION, MISSION AND OBJECTIVES OF THE UMDONI MUNICIPALITY

VISION

“By 2020 Umdoni will be the **JEWEL** of the South Coast.”

MISSION STATEMENT

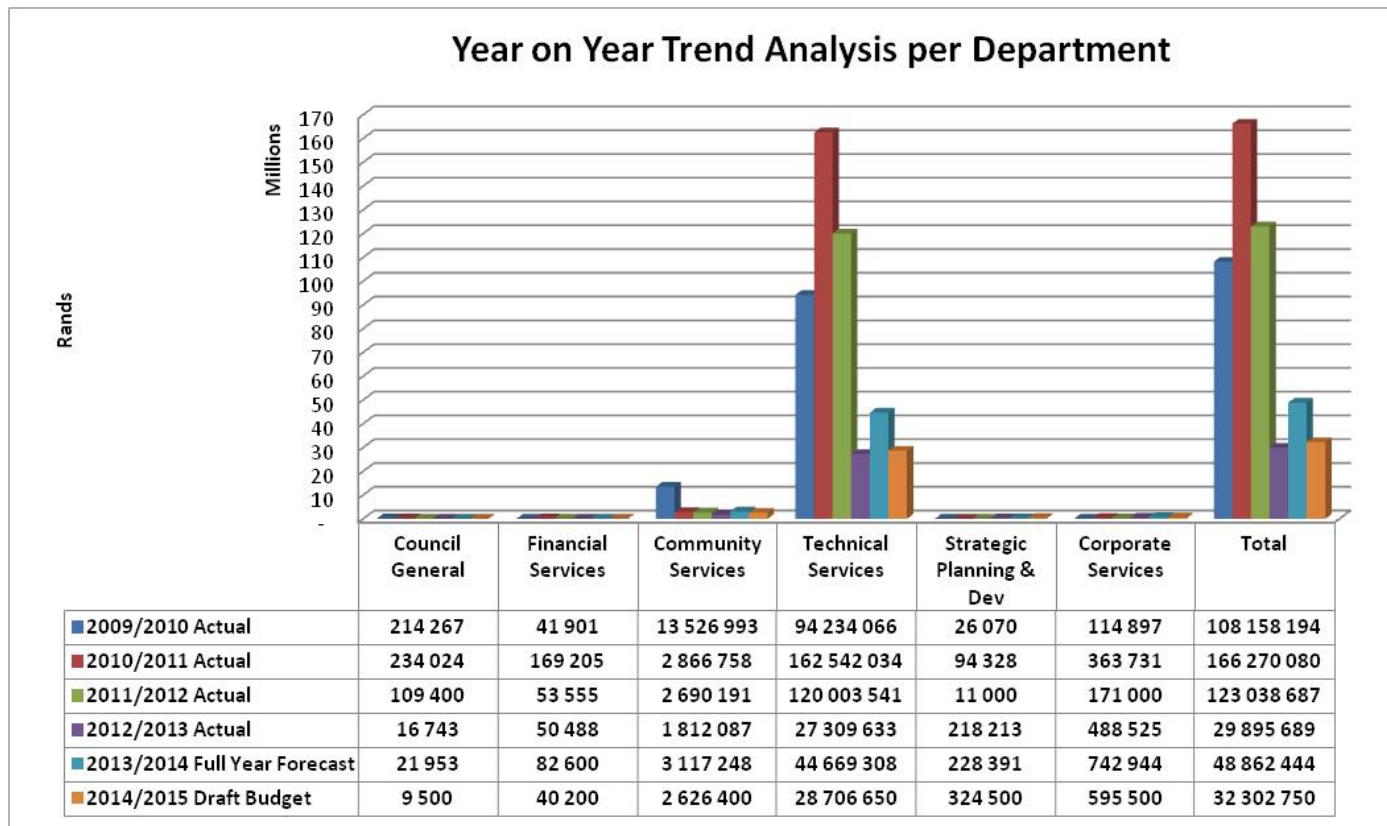
“Working together in contributing to **Job** creation, **Economic** viability through sustained **Local** economic development to ensure the **Well** being of our community in **Eco** friendly environment.”

PRINCIPALS OF UMDONI MUNICIPALITY

- **Job Creation**
- **Economic Viability**
- **Wellbeing of the Community**
- **Environmentally friendly environment**
- **Local Economic Development**

4.2 2014/2015 CAPITAL BUDGET OVERVIEW

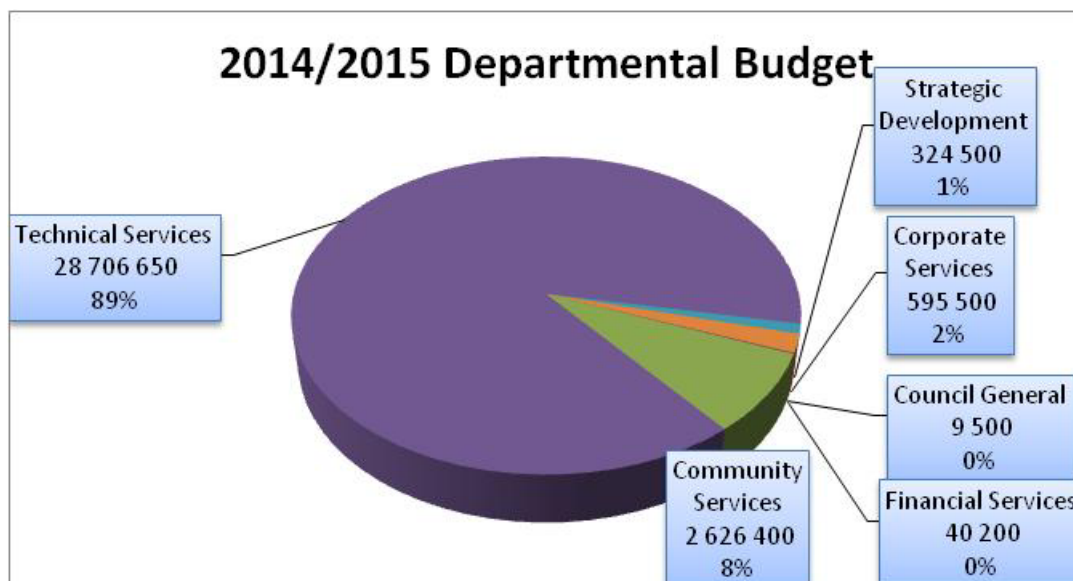
The 2014/2015 Capital Budget has been estimated at R 32,302,750. A graphical representation of the capital growth of the municipality can be portrayed as follows:



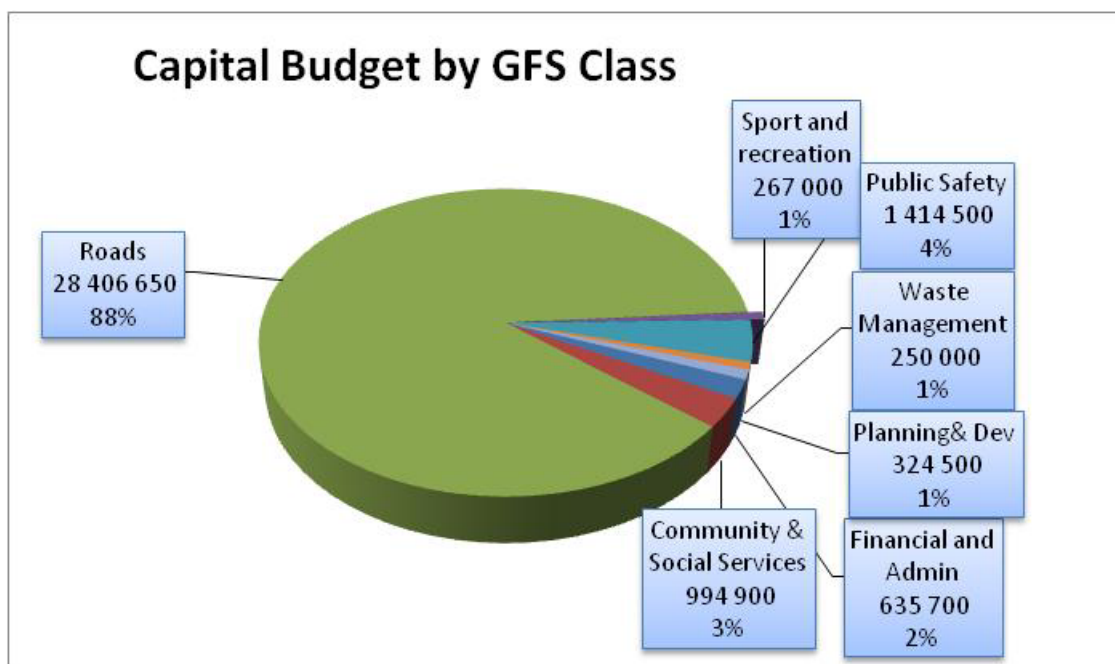
As evident from the above graph, it is clear that the capital budget has decreased from R 49 million in the adjustment budget to R 32 million for the upcoming financial year. This is due to decrease in MIG expenditure as a result of funds rolled over. In addition, Umdoni Municipality is limiting Capital Projects for the upcoming financial year as more emphasis will be placed on rehabilitating current infrastructure.

To this end a large proportion of the capital budget, approximately 88% is geared toward upgrading of rural as well as urban roads. R 18,4 million, funded from MIG, has been budgeted for upgrading of rural roads and R 10 million, funded internally, has been set aside for the rehabilitation of urban roads.

As evident from the graph presented above, it is clear that year on year the majority of Umdoni's Capital Budget is split between Community Services and Technical Services. This shows Umdoni's commitment to providing infrastructure for the community rather than spending administratively.



The capital budget for the 2014/2015 financial year is focused toward improving the lives of the communities, and therefore 97% of the capital budget has been targeted toward Technical Services and Community Services. There main project in the capital budget is the upgrading of rural roads. In addition an amount of R 10 million has been budgeted for the rehabilitation of urban roads. This signifies Umdoni's commitment to maintenance on infrastructure. The greater part of other capital items are all geared towards service delivery.

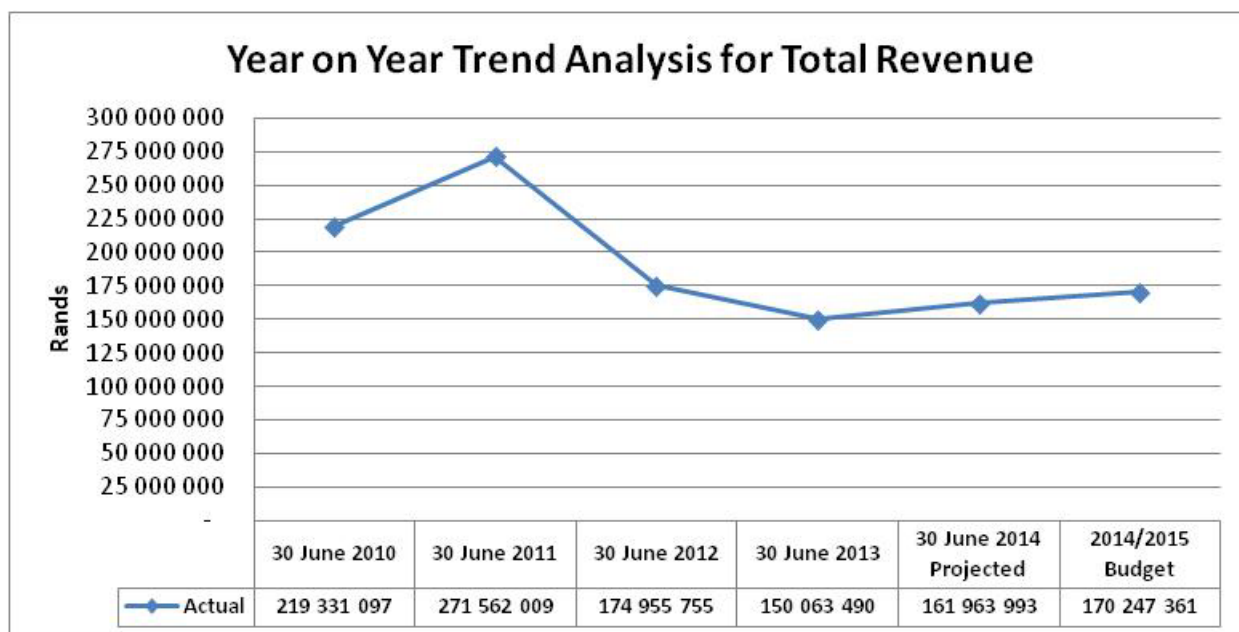


The above mentioned graph categorises the capital budget by GFS classification, with roads and stormwater receiving the largest allocation of 88%, Community and Social Services receiving 3%, Waste management receiving 1% and Public Safety at 4%. This again highlights Umdoni Municipality's commitment to the community .

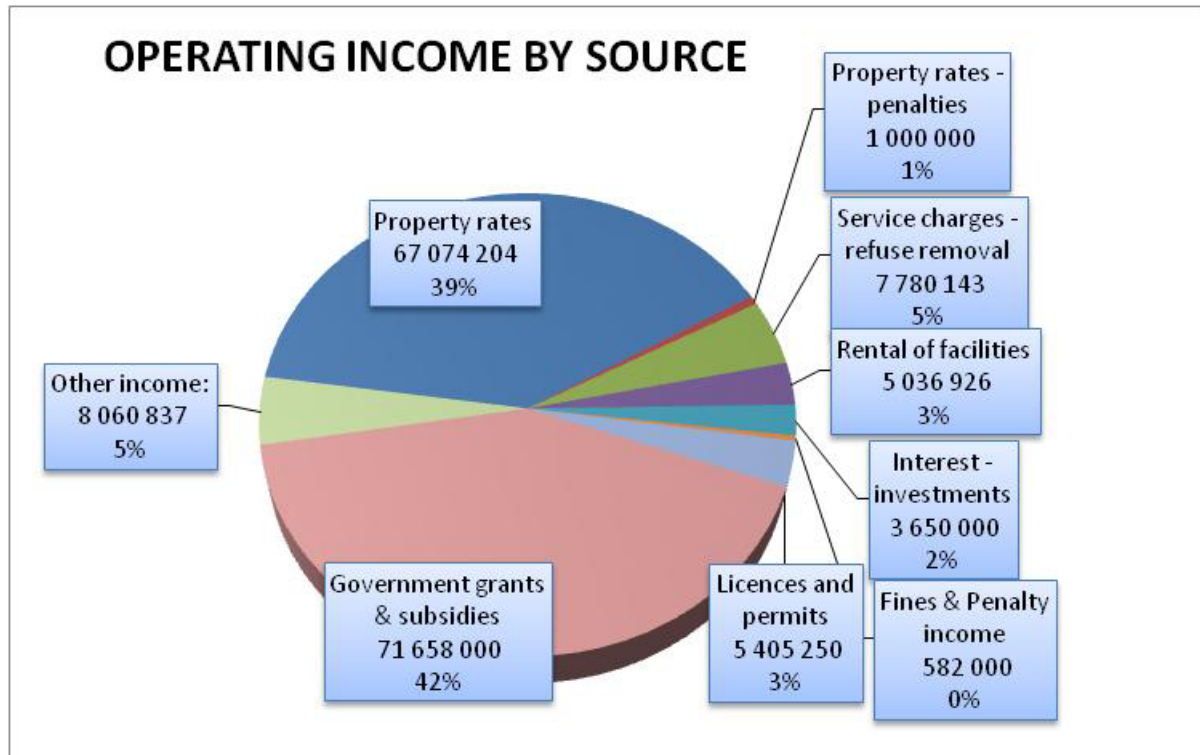
4.3 2014/2015 OPERATIONAL BUDGET OVERVIEW

OPERATING REVENUE

The estimated operating income has been projected at R 170,24 million. An analysis of prior year trend levels of income is reflected below:



Income levels have been estimated at actual collection levels and the 14/15 budget indicates income levels which are realistic and attainable by the municipality. The impact of the global economic crisis as well as current inflation rates have been considered extensively during the establishment of these income levels, as a substantial amount of consumers will no longer be able to afford the level of increases experienced in the past.

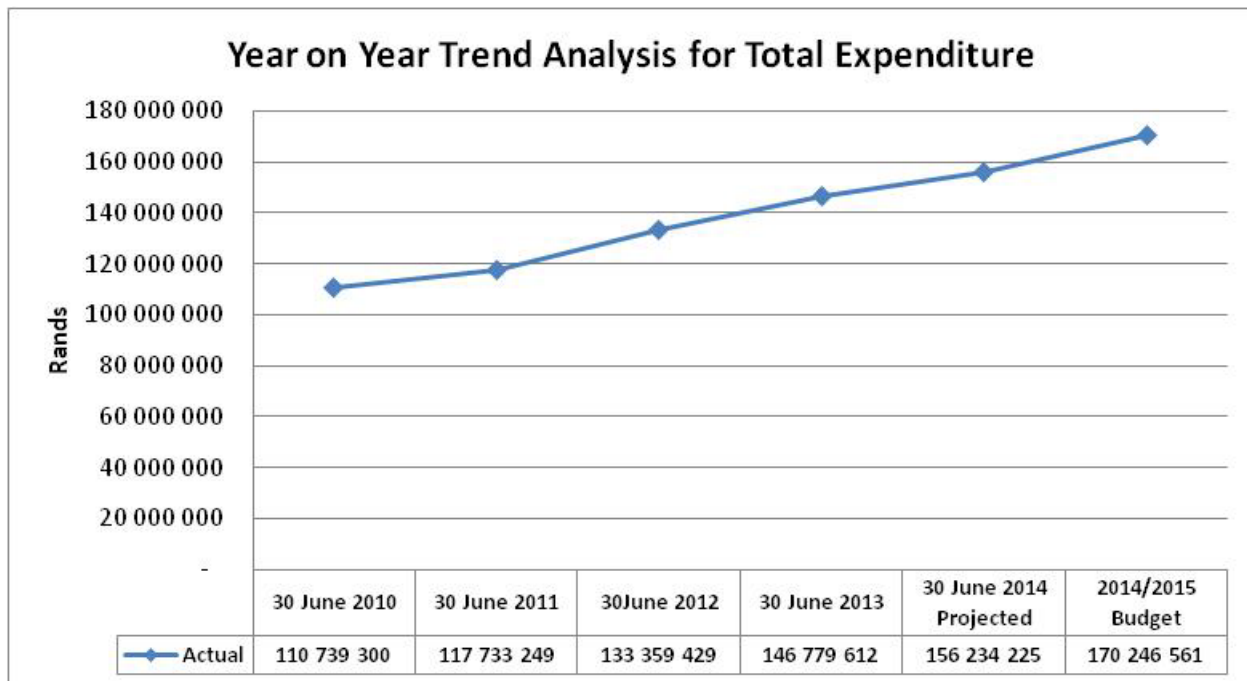


As indicated above, 39% of the income anticipated to be received by the municipality relates to property rates, followed by Government Grants which represent 42% of the estimated income. Included in the grants and subsidies are the equitable share allocation which has been gazetted at R 43,6 million, followed by R 1,8 million allocated for the Finance Management Grant, as well as R 4,66 million from the Departments of Arts and Culture for library services and the remainder as non cash recognition of MIG in accordance with the GRAP standards. In addition R 1,26 million has been allocated for the EPWP grant.

Total Revenue has increased from the previous financial year mainly due to the increase in Government grants. Other notable increases are property rates which have increased by less than inflation forecast. Licenses and permit income has increased by R 2,3 million due to the anticipation that the test centre will be fully operational during the next financial year following a period of limited services. Other income sources have, however, increased minimally.

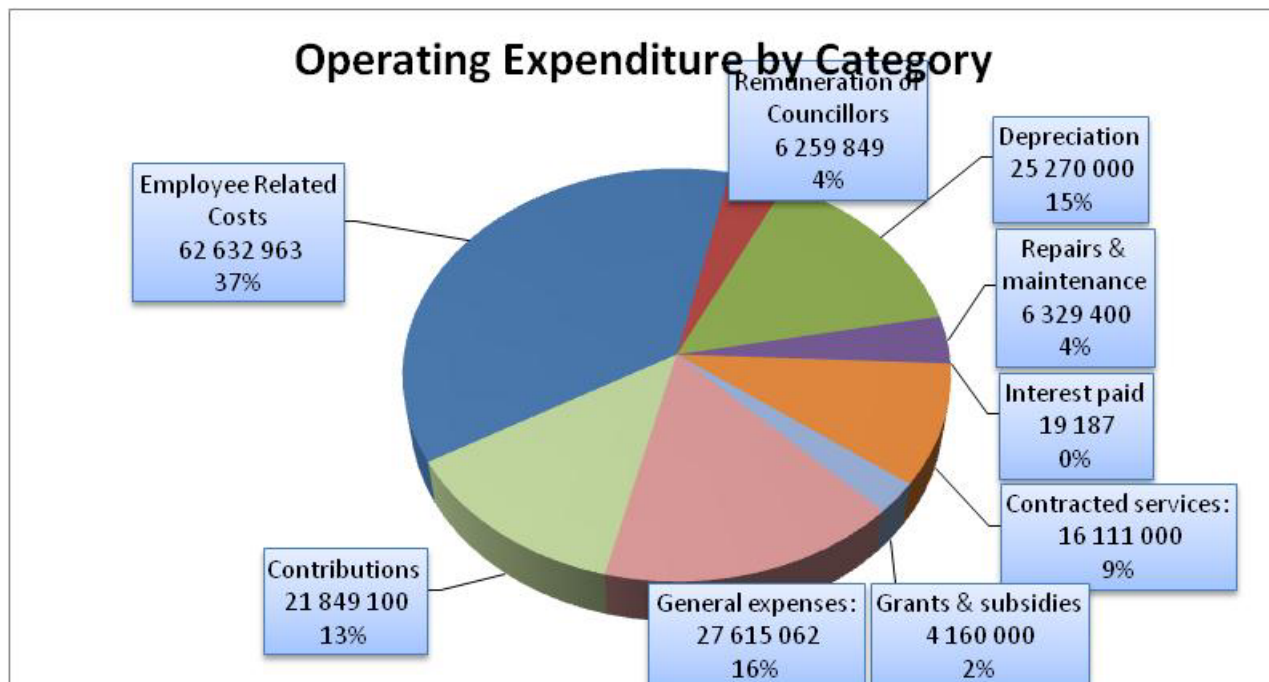
OPERATING EXPENDITURE

The total operating expenditure has been estimated at R 170,25 million. The graph below reflects the trend of expenditure levels as follows:



Whilst our income base has been limited due to the current economic times, the day to day operational expenditure is increasing, which is attributable to inflationary increases and increased service delivery expectations. We therefore find ourselves in a situation where we have to spend the reduced income that we have on expenditure that matters, and will improve the lives of the communities that we serve. Therefore, this budget was prepared on the basis that administrative expenditure will be reduced, and that targeted expenditure, based on our strategic priorities, is enhanced.

Expenditure on the 2014/2015 budget has been allocated as follows:



The graph above shows that 37% of budgeted expenditure will be spent on Employee Related Costs. Salaries have been posing a huge problem for our Municipality in recent years. While income is being limited to an increase of 5%, employee costs have been increasing on average 6-9% per year. The municipality is embarking on a drive in order to curtail Employee costs in an effective manner i.e. without compromising Service Delivery and avoiding costly retrenchments. To this end overtime has been slashed by approximately 30% in the previous year and has remained the same for the upcoming budget and will be more effectively managed. In addition natural attrition has been enforced where there have been resignations or deaths.

In addition to employee costs, other expenditure continues to increase at a rapid rate and we find that in order to provide the same level of service to the community, administrative costs have been drastically reduced. In line with the cost containment measures and numerous circulars, various expenditure items have been reduced such as travelling, advertising, printing and stationery and consultants.

Repairs and maintenance has increased by 7% from the previous year. Although the NT circular recommends 8% of PPE to be budgeted for repairs and maintenance, Umdoni has budgeted approximately 1%. The reasons for this are twofold. First and foremost; the municipality cannot afford to budget the recommended 8%. Further, approximately R 10 million has been budgeted under the capital budget to upgrade roads due to the nature of the work to be done. This is in line with what the municipality can afford as well as the capacity to carry out the necessary works.



5. 2014/2015 MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK TABLES

Umdoni Municipality has tabled the 2014/2015 annual budget in the format that is in accordance with the budget regulations, where possible, as follows:

- a) Budgeted Financial Performance Summary by Revenue Source and Expenditure Category for all Departments as reflected in Annexure 1;
- b) Budgeted Financial Performance - revenue and expenditure by department as reflected in Annexure 2;
- c) Budgeted Financial Performance - revenue and expenditure by municipal vote as reflected in Annexure 3;
- d) Budgeted Financial Performance - revenue and expenditure by line item as reflected in Annexure 4;
- e) Budgeted Capital Expenditure by vote, GFS classification and funding as reflected in Annexure 5; and
- f) Budgeted Capital Expenditure by line item as reflected in Annexure 6
- g) A1 Schedule

The above, and all other budget related documents shall be submitted to National Treasury.

6. TARIFF OF CHARGES – 2014/2015 FINANCIAL YEAR

The tariff of charges for the upcoming financial year have been reviewed on an individual basis by all respective departments and have been open to comments by both Councilors and Officials. The revised tariff of charges has been included in Annexure 7 for consideration by the public. In certain instances tariffs have not increased. Where increases were effected, these were, as far as possible limited to 5%.

7. PROPERTY RATES RANDAGES AND REBATES – 2014/2015 FINANCIAL YEAR

Umdoni Municipality implemented the Municipal Property Rates Act for the first time for the 08/09 financial year. This resulted in a revaluation of all properties within the Umdoni area, and was aligned to market related values. With this valuation, came the implementation of a new rates policy, and applicable tariffs, rebates and relief to the poor.

The current economic situation has further increased the financial burden on households throughout the country and has contributed to the struggle of day to day living and job security and sustainability.

As a sphere of government, we are sensitive to the crisis that we face, and therefore we have accounted for approximately 5% increase in the rates randages for the upcoming financial year. This 5% increase will assist in addressing the inflationary pressures experienced as well as assist in the municipality being able to contribute more effectively to the enhancement of service delivery. Therefore, for 2014/2015 financial year, we propose the rates randages and rebates as indicated below:



UMDONI MUNICIPALITY

DRAFT BUDGET DOCUMENTATION FOR THE 2014/2015 BUDGET YEAR

| Category | 13/14 Rates | 14/15 Rates |
|--------------------------------------|----------------------|----------------------|
| | Randage | Randage |
| Residential | R 0.00826 | R 0.00867 |
| Commercial / Business | R 0.01105 | R 0.01160 |
| Industrial / Mining & Quarries | R 0.01105 | R 0.01160 |
| Agricultural Farms and Smallholdings | R 0.00206 | R 0.00216 |
| State Owned Property | To be rated on usage | To be rated on usage |
| Public Service Infrastructure | R 0.00210 | R 0.00217 |
| Vacant Other | R 0.02183 | R 0.02183 |

The rebates applied for the 2014/2015 financial year is proposed to remain the same as the 13/14 financial year:

| | R |
|--|------------|
| Residential (R 60,000 elective and 15,000 legislated) | 75,000.00 |
| Vacant Other | 15,000.00 |
| Disabled Persons/Pensioners/Indigent: | 370,000.00 |
| Medium to High Density level developments (Sectional Titles and Share blocks) 4% on rates due for the financial year | |
| Annual payments on or before 30 September 2014 - 2.5% of the nett rates raised | |

8. OVERVIEW OF THE ANNUAL BUDGET PROCESS

The budget process is guided by various legislative frameworks and regulations, including the Local Government Municipal Finance Management, No, 56 of 2003, the Municipal Systems Act, 2000 and the municipal Budget and Reporting Regulations

Adherence to these guidelines and regulations are imperative during the budget preparation to ensure an effective, credible and sustainable budget. The review of past practices and performance is further necessary, to identify areas of weakness which can be addressed, as well as maintain the level of performance in areas where this has been achieved.

The process embarked upon for the preparation of the 2014/2015 budget can be illustrated below:



9. OVERVIEW OF THE ALIGNMENT OF THE BUDGET TO THE INTEGRATED DEVELOPMENT PLAN

The alignment of the budget to the integrated development plan is crucial in order to ensure the effectiveness of any budget. Various internal consultative sessions were held with Councilors and officials in order to determine the strategic priorities for the municipality in the upcoming financial year. Both the integrated development plan and the budget has incorporated these priorities and action plans, and therefore assisted in the alignment of both the budget and the integrated development plan.

10. OVERVIEW OF THE BUDGET RELATED POLICIES

The budget related policies are currently under review and any comments or suggestions received during the public participation process will be considered.

11. BUDGETING ASSUMPTIONS

The budgeting assumptions that underpin the 2014/2015 budget preparation are as follows:

Revenue

- All revenue levels were based on current and past year actual trends, and therefore resulted in a realistic revenue base and kept in line with inflation as far as possible;
- Property rates and refuse removal tariffs were increased by approximately 5%;
- Licenses and permits have increased substantially due to the Umdoni Testing centre being fully operational following a period of reduced services due to the recent floods which damaged the test centre.
- All other income has increased minimally in order to maintain affordability and credibility

Expenditure

- Expenditure levels were kept as low as possible whilst prioritizing service delivery
- The following areas were targeted in terms expenditure:
 - Contracted Services
 - Employee related costs
 - General expenses
 - Repairs and maintenance
- Employee costs were budgeted at an estimated increase of 6.84% based on the collective agreement. As explained above measures were put in place to curb the growing employee related costs.
- Administrative costs were reduced significantly.



12. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

I, Mr. XS Luthuli, Municipal Manager of UMDONI MUNICIPALITY, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act, No.56 of 2003 and, to the extent as indicated in the budget documents, the regulations made under this Act, and that the annual budget and supporting documentation are consistent with the draft Integrated Development Plan of the Municipality.

PRINT NAME: X LUTHULI.

MUNICIPAL MANAGER OF: UMDONI MUNICIPALITY.

SIGNATURE: _____

DATE: 26 MARCH 2014.